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**Windflow Technology Limited**  
**Preliminary Annual Report 2017**

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# **Windflow Technology Limited Preliminary Annual Report 2017**

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*Cover photo: the latest Class 2 Windflow 45-500 turbine at Cuddyhouse Rd, Kingseat, near Edinburgh*

## Directors' Annual Review to 30 June 2017

Windflow Technology has continued to make mixed progress in the year to 30 June 2017:

- Two turbines were installed and commissioned by the end of September 2016 in Scotland, including a 50 Hz Class 2 45-500 prototype near Edinburgh, as well as a third Class 1 Windflow 33-500 in the Orkney Islands, at a site called Ludenhill on Mainland Orkney
- All eight Windflow turbines now operating in Scotland, six owned by the Windflow Group, are performing reliably and earning significant revenue for their owners. The Company's UK activity is focussed solely on maintenance of the UK fleet of eight Windflow 500s.
- The Company has continued to promote licensing of its technology in China and elsewhere, with a new focus being on the synchronous power-train as a separate technology suitable for mainstream multi-megawatt 3-bladed turbines.

The Directors are pleased to note that the Company's first sizeable production run of turbines, supplied for the 48 MW Te Rere Hau wind farm owned by NZ Windfarms Limited ("NWF"), continue to run reliably with availability at 97.8% according to their latest quarterly report. Wholesale electricity prices averaging only around 5 c/kWh have continued to make their business (and Windflow's prospects in New Zealand) challenging, but it is heartening to read their latest Annual Report confirming what we have always maintained, that the Windflow 500 is "a fundamentally robust turbine platform".

We note of course that great credit is due to the fine team at NWF who have kept the turbines running optimally, building up great operational know-how. They are backing that up with real design engineering expertise, as they roll out and continue to develop a number of improvements that we provided before handing over the ongoing maintenance to them.

A little known attribute of Te Rere Hau has become another source of pride recently - its synchronous generators, which are needed to help maintain grid stability. As renewable energy displaces fossil-fuelled power in economies that are predominantly fossil-fired (New Zealand's hydro-dominated sector being an exception to the norm), the issue of synchronous generation is coming to the fore, particularly as non-synchronous renewables (conventional wind and all solar photovoltaic) achieve 30-50% penetration or more in any particular grid. Transmission system operators in places like South Australia, Ireland, north-western China and Germany are becoming concerned about the lack of stabilising attributes that synchronous generators provide, notably inertia and system strength (see box on page 4). There is a general, but false, perception that wind turbines cannot drive synchronous generators. Thus an important part of the Company's message is that 10% of New Zealand's wind power is generated synchronously at Te Rere Hau.

The Company's intellectual property around the synchronous power-train has recently been enhanced by the invention of a new low-variable speed (LVS) system which greatly expands the addressable market relative to the original torque limiting gearbox (TLG) system which primarily suits high-wind sites. The LVS system has been patented in several countries including China. Thus there is reason for optimism that the synchronous power-train may be an idea whose time has come.

However:

- The Company has wound down its UK development team due to unattractive market conditions, and its UK activity is focussed solely on maintenance of the UK fleet of eight Windflow 500s.

- The Company has not yet been able to conclude a licence deal, although there is real interest in both the Company's existing mid-size turbine designs and the synchronous power-train for other manufacturers' multi-megawatt turbines.
- The New Zealand market continues to stagnate because of an oversupply of power and weak prices for carbon in the global emissions trading markets. On the other hand, there are good prospects for the next round of wind farm developments to take place on the back of the Paris Agreement, growing moves towards electric vehicles, and a tightening supply-demand balance, which would have been tighter if the country's remaining coal-fired power station had been closed on schedule (2018) rather than given an extra lease of life to 2022.

### **Financial Summary**

A gross profit of \$0.9 million was achieved by the Windflow Group on revenue of \$1.7 million. However the overall result after overheads and finance costs was a loss of \$4.3 million. This is clearly unsustainable and raises the question: where to from here?

### **Windflow UK Transaction Intended to Strengthen the Balance Sheet**

Looking back over the last seven years since Windflow entered the UK market, it is clear that the investment has not paid off because the final volume of eight turbines was far below initial expectations. The sales, both internal and external, have not been sufficient to carry the Company's overheads as a turbine manufacturer.

Financially this has manifested as a deteriorating balance sheet going into negative equity. The loans provided by the Company's largest shareholder have funded all of the WTL Group's costs to build the six wind turbine projects that WUK still owns, including WTL Group internal costs and overheads. However the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) require that those internal costs and overheads not be counted when valuing the turbines as fixed assets. So the WTL Group has negative equity, primarily because it has been accumulating loan liabilities on its balance sheet, which reflect the full costs (including internal costs and overheads) and thus are inherently higher than the allowed value of the assets under NZ IFRS. And being in negative equity makes it fundamentally difficult to enter into any new long-term business relationship.

In order to "put a line under" the UK market venture, the Company has entered into a conditional agreement with its largest shareholder. Under this agreement, the WTL Group companies would repay all outstanding debts to him by transferring the UK-based assets to him and converting all outstanding redeemable convertible preference shares. As a result his shareholding in WTL would increase from 42% to 73%, and the Company's equity position would improve.

The agreement is subject to satisfaction of a number of conditions, including completion of due diligence, agreement of final transaction documentation, and the approval of WTL's shareholders. Due diligence is nearly complete and a Notice of Special Meeting to approve the transaction will be circulated to WTL Shareholders in due course.

### **Further Downsizing Required**

Although the proposed transaction is expected to improve the Company's balance sheet, further downsizing will be required in order to remain a going concern. Accordingly the directors regret to advise that the decision has been taken to close the factory in Christchurch and as a consequence it is proposed to trim the Company down to minimum staff numbers required to support the operation of the UK turbines and any other revenue-generating activities, such as supporting the US prototype of the Class 2 turbine in Texas.

It is intended that the Company continue as a going concern without continuing to rely of the sole support of its largest shareholder, with a small engineering team, primarily focussed on managing the operation and maintenance of the UK turbines. The Company also intends to address licensing opportunities as they arise. Details of this downsizing will be announced in due course following consultation with staff. For further details, we refer you to the Financial Statements and Notes.

## Lessons from the South Australian blackout



BLACK SYSTEM SOUTH AUSTRALIA 28 SEPTEMBER 2016 – FINAL REPORT



### What conclusions have come from AEMO's investigations?

From its analysis of the Black System event, many of AEMO's conclusions provide valuable guidance for improving the management of extreme conditions in SA:

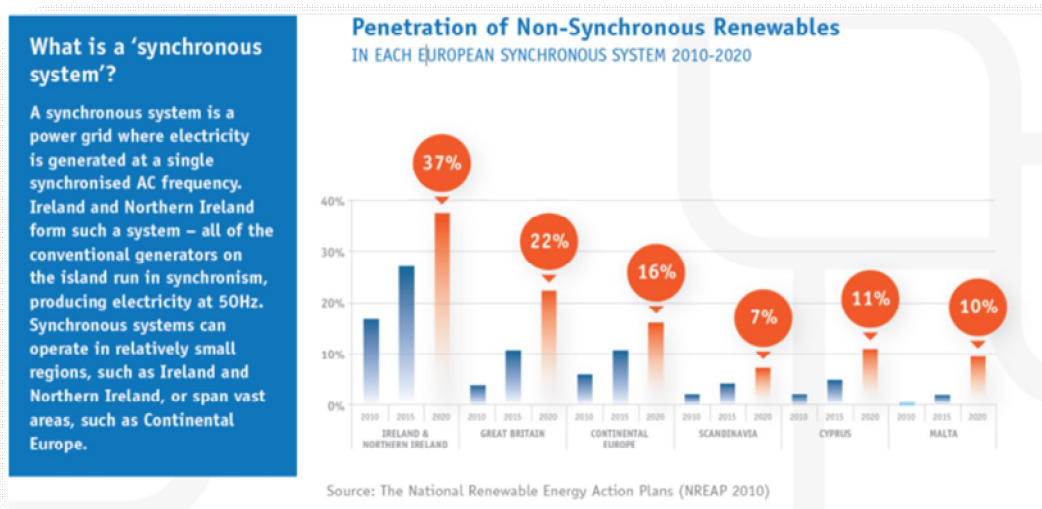
- The following factors must be addressed to increase the prospects of forming a stable SA island and avoiding a Black System:
  - Sufficient inertia to slow down the rate of change of frequency and enable automatic load shedding to stabilise the island system in the first few seconds. This will require increases in SA inertia under some conditions, as well as improvements to load shedding systems combined with reduced interconnector flows under certain conditions.
  - Sufficient frequency control services to stabilise frequency of the SA island system over the longer term. This will require increases in local frequency control services under some conditions.
  - Sufficient system strength to control over voltages, ensure correct operation of grid protection systems, and ensure correct operation of inverter-connected facilities such as wind farms. This will require increases in local system strength under some conditions.

## IRELAND

The Eirgrid Group is the licensed electricity Transmission System Operator and Market Operator in Ireland and Northern Ireland. Its mission is to provide quality, efficient, independent transmission and market services for the benefit of communities, farms and businesses across Ireland and Northern Ireland. The stated aim of their "DS3 Programme" is "to meet the challenges of operating the electricity system in a secure manner while achieving the 2020 renewable electricity targets".

Their brochure about the DS3 Programme contains the following graphic and states as follows:

*"wind generation is a non-synchronous technology, which poses challenges when integrating into a lightly interconnected synchronous system."*





## Financial Statements Directors' declaration

In the opinion of the directors of Windflow Technology Limited (the "Company"), these financial statements of Windflow Technology Limited for the year ended 30 June 2017 and notes, on pages 6 to 29:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Group as at 30 June 2017 and the results of its operations and cash flows for the 12 months ended on that date; and,
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The directors consider that they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Directors:

A handwritten signature in black ink, appearing to be "M. H. H. H.", written over the printed name and date.

Acting Chairman  
14 September 2017

A handwritten signature in black ink, appearing to be "Geoff Henderson", written over the printed name and date.

Director  
14 September 2017

# Unaudited Consolidated Balance Sheet


As at 30 June 2017

	Note	2017 (\$000's)	2016 (\$000's)
<b>Current assets</b>			
Cash on hand and at bank	15	340	785
Trade and other receivables	16	445	562
Asset Held for Sale	16	10,198	-
Inventory and work in progress	12	2,717	3,578
Value added goods and services tax refund		-	260
<b>Total current assets</b>		<b>13,700</b>	<b>5,185</b>
<b>Non-current assets</b>			
Property, plant & equipment	19	760	7,819
Capital work in progress	19	-	1,455
Intangible assets	20	830	1,080
<b>Total non-current assets</b>		<b>1,590</b>	<b>10,354</b>
<b>Total assets</b>		<b>15,290</b>	<b>15,539</b>
<b>Equity</b>			
Contributed capital	11	46,588	46,589
Foreign currency translation reserve		1,399	908
Accumulated losses		(55,143)	(50,228)
Equity attributable to the owners of the Company		(7,156)	(2,731)
Non-controlling Interests		(134)	(97)
<b>Total equity</b>		<b>(7,290)</b>	<b>(2,828)</b>
<b>Current liabilities</b>			
Trade and other payables	17	1,711	2,013
Loan from shareholder	18	20,699	16,229
Provisions	14	106	64
Value added goods and services tax		46	-
<b>Total current liabilities</b>		<b>22,562</b>	<b>18,305</b>
<b>Non-current liabilities</b>			
Provisions	14	18	60
<b>Total non-current liabilities</b>		<b>18</b>	<b>60</b>
<b>Total equity and liabilities</b>		<b>15,290</b>	<b>15,538</b>
<b>Net tangible assets per ordinary share (cents)</b>		<b>(21.01)</b>	<b>(10.11)</b>

The notes on pages 10 to 29 are an integral part of these financial statements.

For and on behalf of the Board of Directors who authorise these financial statements for issue on 14 September 2017:

  
Acting Chairman

  
Director

## Unaudited Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

	Note	2017 (\$000's)	2016 (\$000's)
Operating revenue	5	606	363
Cost of sales		(334)	(396)
<b>Gross profit / (loss)</b>		<b>272</b>	<b>(33)</b>
Operating revenue from discontinuing operations		1,053	1,438
Cost of sales from discontinuing operations		(133)	(173)
<b>Gross profit / (loss)</b>		<b>920</b>	<b>1,265</b>
Other revenue	5	84	1,225
<b>Less:</b>			
Depreciation	6	(245)	(171)
Amortisation of licences and patents	6	(252)	(345)
General and administration costs		(1,881)	(1,688)
Engineering costs		(679)	(606)
Research and development costs		(4)	(5)
Marketing costs		(83)	(227)
Wind farm development, operations & maintenance		(366)	(518)
Costs of discontinuing operations		(1,177)	(1,569)
		(4,687)	(5,128)
Operating loss before finance income and expenses		<b>(3,411)</b>	<b>(2,671)</b>
Finance income	5	2	3
Finance expense		(886)	(1,012)
<b>Loss before income tax</b>		<b>(4,295)</b>	<b>(3,680)</b>
Income tax expense / (credit)		-	-
<b>Loss for the year</b>		<b>(4,295)</b>	<b>(3,680)</b>
Other comprehensive income:			
Exchange differences on translating foreign operations		497	2,540
<b>Total comprehensive loss for the period attributable to the shareholders of Windflow Technology Limited</b>		<b>(3,798)</b>	<b>(1,141)</b>
<b>Total comprehensive loss for the year attributable to:</b>			
Non-controlling interest		(43)	(22)
Owners of the parent		(3,755)	(1,118)
		<b>(3,798)</b>	<b>(1,141)</b>
Losses per share for loss attributable to the ordinary equity holders of the Company during the period:			
Basic and Diluted Loss per Share		<b>\$(0.11)</b>	<b>\$(0.10)</b>

The notes on pages 10 to 29 are an integral part of these financial statements.



## Unaudited Consolidated Statements of Movements in Equity

	Note	Ordinary Share Capital (\$'000's)	Preference Share Capital (\$'000's)	Foreign Currency Translation Reserve (\$'000's)	Retained Earnings (\$'000's)	Equity attributable to equity holders of the parent (\$'000's)	Equity Attributable to non- controlling Interests (\$'000's)	Total Equity (\$'000's)
<b>Balance at 30 June 2015</b>		<b>38,100</b>	<b>5,614</b>	<b>(1,612)</b>	<b>(45,992)</b>	<b>(3,890)</b>	<b>(95)</b>	<b>(3,985)</b>
Total comprehensive loss for the year		-	-	2,540	(3,658)	(1,118)	(22)	(1,141)
Foreign currency translation		-	-	(20)	-	(20)	20	-
Preferential dividends	10	-	-	-	(577)	(577)	-	(577)
Redeemable Convertible Preference Shares	11	-	2,875	-	-	2,875	-	2,875
Issue costs of Preference Shares	11	-	-	-	-	-	-	-
<b>Balance at 30 June 2016</b>		<b>38,100</b>	<b>8,489</b>	<b>908</b>	<b>(50,228)</b>	<b>(2,731)</b>	<b>(97)</b>	<b>(2,828)</b>
Total comprehensive loss for the year		-	-	497	(4,252)	(3,755)	(43)	(3,798)
Foreign currency translation		-	-	(6)	-	(6)	6	-
Preferential dividends	10	-	-	-	(663)	(663)	-	(663)
Redeemable Convertible Preference Shares	11	-	-	-	-	-	-	-
Issue costs of Preference Shares	11	-	(1)	-	-	(1)	-	(1)
<b>Balance at 30 June 2017</b>		<b>38,100</b>	<b>8,488</b>	<b>1,399</b>	<b>(55,143)</b>	<b>(7,156)</b>	<b>(134)</b>	<b>(7,290)</b>

The notes on pages 10 to 29 are an integral part of these financial statements.

## Statement of Cash Flows

For the year ended 30 June 2017

	Note	2017 (\$000's)	2016 (\$000's)
<b>Cash flows from operating activities</b>			
Cash receipts from customers			
Sales of turbines, power and components		1,609	1,792
Consulting Fees		141	16
Other		307	333
Interest received		2	3
Cash paid to suppliers and employees			
Suppliers		(2,510)	(4,484)
Employees		(1,695)	(1,586)
Warranties: agreement with New Zealand Windfarms	14	-	(996)
Other		-	(374)
<b>Net cash used in operating activities</b>		<b>(2,146)</b>	<b>(5,296)</b>
<b>Cash flows from investing activities</b>			
Disposal of property plant and equipment		-	1,932
Acquisition of property plant, equipment and capital WIP		(2,815)	(1,817)
<b>Net cash used in investing activities</b>		<b>(2,815)</b>	<b>115</b>
<b>Cash flows from financing activities</b>			
Dividends on redeemable convertible preference shares		-	(73)
Loan from a shareholder		4,518	4,832
Share capital issued		-	1,000
Issue costs of equity		(1)	-
<b>Net cash from financing activities</b>		<b>4,517</b>	<b>5,759</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(444)</b>	<b>578</b>
<b>Foreign currency translation adjustment on cash value at end of period</b>		<b>(1)</b>	<b>(35)</b>
Cash and cash equivalents at beginning of the period		785	242
<b>Cash and cash equivalents at end of the period</b>		<b>340</b>	<b>785</b>

The notes on pages 10 to 29 are an integral part of these financial statements.

## Notes to the Financial Statements

### 1. REPORTING ENTITY

Windflow Technology Ltd (the "Company") is a company incorporated and domiciled in New Zealand. The Company, its subsidiaries and associates comprise the Windflow Technology group (the "Group").

The Company is an issuer for the purpose of the Financial Reporting Act 2013. The Financial Statements are those of the Group and have been prepared in accordance with the Financial Reporting Act 2013 and Companies Act 1993.

These unaudited financial statements were approved by the Board of Directors on 14 September 2017.

The Group is profit oriented and undertakes wind turbine development and manufacture, and operated in New Zealand, the United Kingdom and the United States of America during the financial year.

The Company is incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and is an FMC reporting entity under the Financial Markets Conduct Act 2013. The Company is listed on the New Zealand Alternative Stock Exchange and the address of its registered office is care of Nexia New Zealand, 123 Victoria Street, Christchurch 8013.

### 2. BASIS OF PREPARATION

#### a) Functional and presentation currency

Items included in the Financial Statements are measured using the New Zealand Dollar, the currency of the primary economic environment in which the entity operates. The Financial Statements are presented in New Zealand dollars, which is the Group's functional and presentation currency. All values are rounded to the nearest thousand dollars (\$000's).

#### b) Measurement base

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed by the Group.

#### c) Statement of compliance

These financial statements of the Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') and the requirements of the Financial Reporting Act 2013 and the Companies Act 1993. They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards ('FRS') as applicable for profit oriented entities. The Financial Statements comply with International Financial Reporting Standards ('IFRS').

#### d) Critical judgements in applying accounting policy

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and are reviewed on an on-going basis. The results of these actions form the basis of making the judgements about carrying values of assets and liabilities of the Company and Group. Actual results may differ from these estimates under different assumptions and conditions.

Details of material accounting judgements and assumptions are:

##### i. Provisions for warranty.

In determining the level of provision required for warranties, the Group has made judgements in respect of the expected performance of products and the cost of rectifying any items that do not meet contractual standards. Historical experience and the determinations of qualified employees have been used by management in determining the appropriate provision required.

##### ii. Revenue recognition

Operating revenue arising from the completion of a contract is calculated in accordance with the relevant stage of completion. The extent of completion is calculated with reference to the terms of the contract, the costs incurred and management input as to the stage of completion.

##### iii. Estimation of the useful lives of assets

The estimation of the useful lives of assets, including fixed life intangible assets and property, plant and equipment, has been based on historical experience, manufacturers' warranties, lease terms and management's judgement on the performance of the asset. Adjustments to useful lives are made when considered necessary.

##### iv. Impairment of assets

The Group assesses impairment of all assets at each reporting date, by evaluating conditions specific to the Group and to the particular assets held. The assessment made includes product and manufacturing performances, technology, economic environments and future product expectations. If an impairment exists the recoverable amount is determined and the asset written down to the recoverable amount.

**v. Preference share capital**

The redeemable convertible preference shares have been accounted for as equity because the Company has discretion to convert these shares to ordinary shares at any time during their five year period to maturity. This feature enables the Company to immediately extinguish any further liabilities in the form of dividends that accrue on a 10% annual rate of return, therefore this entire instrument has been accounted for as equity. The Company's Directors sought independent professional advice to confirm that this accounting treatment was appropriate, recognising that the terms of the issue are such that the dividends payable prior to conversion to ordinary shares need to be paid in cash (See also Note 11).

**e) Going concern**

These Financial Statements have been prepared on a going concern basis. In using the going concern basis for accounts preparation, the matters considered and assumptions made by the Directors in reaching this conclusion are detailed in Note 29.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below. These accounting policies have been applied consistently to all periods presented in these Financial Statements and by all Group entities. Certain comparative values have been changed to be consistent with these accounting policies (retentions / trade receivables)

**a) Basis of Consolidation**

**i. Subsidiaries**

The Group Financial Statements consolidate the Financial Statements of the Company and all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether another entity is controlled by the Group. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

**ii. Associates (equity accounted investees)**

Associate companies are companies in which the Group has significant influence, but not control, over the financial and operating policies of the entity so as to obtain benefit from its activities. Associate companies have been reflected in the Consolidated Financial Statements using the equity method, which shows the Group's share of retained surpluses or losses in the Consolidated Statement of Comprehensive Income, and its share of post-acquisition increases or decreases in net assets in the Consolidated Balance Sheet. Where the Group's share of losses exceed its interest in an associate, the carrying amount of the interest is reduced to nil and the recognition of further losses is discontinued except to the extent the Group has an obligation or has made payments on behalf of the investee.

**iii. Transactions eliminated on consolidation**

Intra-group balances, and any unrelated income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains.

**b) Revenue Recognition**

Operating revenues are recognised by reference to the stage of completion of the sales contract. Contract revenue is matched with contract costs incurred in reaching the relevant stages of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed. Foreseeable losses on a contract are recognised in the Statement of Comprehensive Income immediately.

License fee income and sales of parts is recognised when an invoice is issued while electricity sales are accrued on the basis of kilowatt hours produced.

**c) Investment Revenue**

Investment revenue from investments and deposits is recognised on an accrual basis using the effective interest method.

**d) Foreign Currency Transactions and Balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised as profit or loss within the Statement of Comprehensive Income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

**e) Inventories**

Inventory of component parts is recognised at lower of cost determined on a first-in first-out basis and net realisable value and includes expenditure incurred in acquiring inventory and bringing it to its existing location and condition. Provision has been made for any obsolete stock on hand and has been recognised within the Statement of Comprehensive Income.

Work in Progress includes the cost of direct materials, components, direct labour and an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

f) **Supplier Prepayments**

Supplier prepayments comprise deposits paid to suppliers and goods paid for but not on hand at a Group site. Typically such items include gearbox components, tower steel and nacelle claddings.

g) **Goods and Services Tax (GST) and UK Value Added Tax (VAT)**

The Financial Statements have been prepared on a GST/VAT exclusive basis, except that all receivables and payables have been shown GST/VAT inclusive to the extent that GST/VAT is payable or receivable on the transaction that gave rise to the payable or receivable.

h) **Interest Expense**

Where interest expense has been directly incurred in the construction of an asset the cost has been recognised to the cost of construction of the asset.

i) **Financial Instruments**

i. **Non-derivative financial instruments**

Non-derivative financial instruments are recognised within the Balance Sheet when the Group becomes party to a financial contract. They include cash, bank deposits, receivables, payables and investment in equities.

**Recognition and measurement**

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

*Cash and Cash Equivalents*

Cash includes bank balances, demand deposits and other highly liquid investments readily convertible into cash as part of the Group's day-to-day cash management and are subject to an insignificant risk of changes in value.

*Trade and Other Receivables*

Trade receivables, which generally have terms of 30 to 60 days, are measured at cost, which approximates fair value at each reporting date. Recoverability of trade receivables is reviewed on an on-going basis. Individual debts that are known to be unrecoverable are written off when identified.

*Trade and Other Payables*

Trade and other payables are carried at amortised cost. Due to their short term nature they are not discounted.

ii. **Derivative financial instruments and hedging**

The Group uses derivative financial instruments to hedge its risk associated with foreign currency fluctuations arising from operational, financing and investment activities. Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and subsequently re-measured to their fair value at each reporting date. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as fair value hedges.

*Fair Value Hedge*

Changes in the fair value of derivatives that do not qualify as a cash flow hedge are recorded in the Statement of Comprehensive Income.

*Cash flow Hedge*

The effective portion of changes in the fair value of derivatives that are designated as qualifying as cash flow hedges is recognised in equity in the cash flow hedge reserve. Any ineffective portion is designated as a fair value hedge with the gain or loss recognised within the Statement of Comprehensive Income.

If the hedging instrument no longer meeting the criteria for hedge accounting expires, is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The accumulated gain or loss recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit and loss.

j) **Taxation**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or subsequently enacted at the reporting date, or any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit nor differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is possible that future profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

k) **Property, Plant and Equipment**

i. **Recognition and measurement**

Property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment.

Cost includes expenditure directly attributable to the acquisition or construction of the asset.

When major components of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

ii. **Depreciation**

Depreciation is provided on a straight line basis on all property, plant and equipment at depreciation rates calculated to allocate the asset's cost, less the residual value, over its estimated useful life.

No depreciation is charged on partially constructed assets.

The estimated useful lives for the current and comparative periods are:

Operating Wind turbines	20 years
Demonstration Wind Turbine	10 years
Motor vehicles	5 years
Leasehold improvements	12 years
Office equipment	2 to 12 years
Equipment and tooling	1 to 14 years
Blade moulds	amortised over 50 pairs of blades

iii. **Disposals**

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognised within the Statement of Comprehensive Income.

l) **Intangible Assets**

Intangible assets that are acquired by the Group are recognised if it is probable that the expected future economic benefits relating to the intangible assets will accrue to the Company and the cost is able to be reliably measured.

Intangible assets including patents, licences and certifications that are assessed as having a finite life are amortised equally over their useful lives from the time the patent, licence or certification is available or registered.

Where estimated useful lives or recoverable values have diminished due to market conditions, amortisation is accelerated or the carrying value is impaired. Where the life of the intangible asset is finite, the value of the asset is amortised over the determined period.

m) **Impairments**

The carrying values of the Group's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount exceeds its recoverable amount. Impairments that directly affect the carrying value of assets are recognised as losses in the Statement of Comprehensive Income.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

i. **Impairment of receivables**

All significant receivables are individually reviewed by management and impairments or provisions are made if deemed necessary.

ii. **Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the Statement of Comprehensive Income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.



An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**n) Warranty Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments at the time value of money and the risks specific to the liability.

Each turbine commissioned includes warranty cover. The full warranty cover, which extended for five years, was in previous years expensed in the Statement of Comprehensive Income when the turbine was commissioned for a customer. This sum was then transferred to provisions for the likely expenditure arising from the warranty.

Various suppliers will also give warranties to the Company, which may offset the Company's gross cost for any warranty claims, and the amount of such recovery is based on an assessment of the probability that such recovery will eventuate.

At the end of each reporting period, the warranty records of all turbines are reviewed and the adequacy of the amounts provided for the remainder of the warranty period are reassessed. The provision will be increased or decreased depending on turbine history and expected future warranty expenses.

Any costs arising from the warranty during a period are charged to warranty expense and any warranty received from suppliers is credited to warranty monies received.

**o) Retentions**

Retentions represent the final payment of the selling price of the turbines that have been commissioned. These amounts are included in total revenue and are due and payable at specific periods following the commissioning of each turbine.

**p) Research and Development Costs**

Research costs are recognised as incurred in the Statement of Comprehensive Income.

Development costs are capitalised where future economic benefits are expected to exceed those costs, otherwise such costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred. Development expenditure, recognised as an intangible asset, is stated at cost and amortised in the Statement of Comprehensive Income over the period of expected benefits. All other development expenditure is expensed as incurred.

**q) Employee Entitlements**

A liability for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave is recognised in the Balance Sheet when it is probable that settlement will be required and that these costs are capable of being quantified. The liability is equal to the present value of the estimated future cash outflows as a result of employee services provided at each reporting date.

***Wages, salaries, annual leave and sick leave***

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured as the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

The Group contributes to defined contribution superannuation for employees. The expense is recognised in the Statement of Comprehensive Income when incurred. The Group's legal and constructive liability is limited to these contributions.

An employee share option scheme is offered to employees of the Company (refer Note 13). Employees within the Group are granted share appreciation rights, which can only be settled in cash ("cash settled transactions"). The cost of cash settled transactions is measured initially at fair value at the grant date based on the Black-Scholes-Merton model. This fair value is expensed over the period until the vesting date with the recognition of a corresponding liability. The liability is pre-measured to fair value at each reporting date, up to and including the settlement date, with changes in fair value recognised in employee benefits expense.

**r) Reserves**

**i. Cash flow hedge reserve**

A cash flow hedge reserve records gains or losses on forward foreign currency cash flow hedges that are recognised directly in equity.

**ii. Employee share entitlement reserve**

**iii.** An employee share entitlement reserve recognises the fair value of shares granted but not vested. Amounts are transferred to share capital when the shares vest to the employee.

**s) Loss per share**

The Group presents basic earnings / loss per share (EPS) data for its Ordinary Shares. Basic EPS is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of Ordinary

Shares outstanding during the period. Diluted EPS has not been reported as International Accounting Standard 33: Earnings Per Share prohibits such disclosure when it will reduce the loss per share.

t) **Dividends of preference share capital**

Dividends payable on redeemable convertible preference shares accrue on a daily basis. Until paid, this liability is reflected as a current liability and directly through the statement of movement in equity, given the determination that this is an equity instrument (see Note 2 d) v.)

u) **Convertible Notes**

Interest payable on convertible notes accrues on a daily basis. Provision has been for the interest payable until the maturity date of the convertible notes. This liability is reflected as a current and non-current liability and has been recorded as an expense in the Statement of Comprehensive Income.

v) **Change in Accounting Policies**

There have been no changes to the accounting policies.

#### 4. SEGMENTAL REPORTING

The Group operated in two separately reportable business segments; the Wind Turbines segment and the Licensing segment, which are reviewed by the chief operating decision maker. All other activities are aggregated as 'Corporate'. Transactions between reporting segments are accounted for on the accruals basis.

**Wind Turbines Segment:** Represents manufacturing, installing, commissioning, selling, operating and maintaining wind turbines and related parts. It is an aggregation of the activities in New Zealand, the United Kingdom and the United States of America.

**Licensing Segment:** Derives revenue from licensing agreements with other manufacturers of wind turbines. In these financial statements all such revenue was from engineering services provided to GD SATCOM Technologies Inc., USA.

**Corporate (All Other Segments):** Represents the design and development of the Wind Turbine, general marketing and administration expenses; it includes all Group companies and their general administration income and expenses that are not applicable to the Licensing segment nor the Wind Turbines segment.

Depending on the result of the proposed special meeting (see Notes 28 and 29) the segments in which the Group operates may change.

a) **Business Segmental Analysis**

	2017 Wind Turbines (\$000's)	2017 Licensing (\$000's)	2017 All Other Segments (\$000's)	2017 Total (\$000's)	2016 Wind Turbines (\$000's)	2016 Licensing (\$000's)	2016 All Other Segments (\$000's)	2016 Total (\$000's)
Total revenue : Sales to customers	1,645	-	157	1,802	2,868	-	161	3,029
Less:- Operating expenses	4,292	108	1,697	6,096	4,634	19	2,056	6,709
<b>(Loss)/Profit before income tax</b>	<b>(2,647)</b>	<b>(108)</b>	<b>(1,540)</b>	<b>(4,295)</b>	<b>(1,766)</b>	<b>(19)</b>	<b>(1,895)</b>	<b>(3,680)</b>
<b>Assets and Liabilities</b>								
Segment assets	14,394	53	843	15,290	13,567	65	1,907	15,539
Segment liabilities	21,034	-	1,545	22,579	17,244	-	1,122	18,366
<b>Total equity</b>	<b>(6,640)</b>	<b>53</b>	<b>(702)</b>	<b>(7,290)</b>	<b>(3,677)</b>	<b>65</b>	<b>785</b>	<b>(2,827)</b>
<b>CASH FLOW</b>								
	2017 Wind Turbines (\$000's)	2017 Licensing (\$000's)	2017 All Other Segments (\$000's)	2017 Total (\$000's)	2016 Wind Turbines (\$000's)	2016 Licensing (\$000's)	2016 All Other Segments (\$000's)	2016 Total (\$000's)
<b>Cash receipts from customers</b>								
Sales of turbines and components	1,609	-	-	1,609	1,792	-	-	1,792
Other	293	-	155	448	143	-	206	349
Interest received	-	-	2	2	-	-	3	3
<b>sub-total</b>	<b>1,901</b>	<b>-</b>	<b>157</b>	<b>2,058</b>	<b>1,935</b>	<b>-</b>	<b>209</b>	<b>2,144</b>
<b>Cash paid to suppliers and employees</b>								
Suppliers	1,530	46	934	2,510	2,355	-	2,129	4,484
Employees	879	62	754	1,695	1,062	-	524	1,586
Warranties: agreement with New Zealand Windfarms	-	-	-	-	996	-	-	996
Other	-	-	-	-	-	-	374	374
<b>sub-total</b>	<b>2,408</b>	<b>108</b>	<b>1,688</b>	<b>4,205</b>	<b>4,413</b>	<b>-</b>	<b>3,027</b>	<b>7,440</b>
<b>Net cash used in operating activities</b>	<b>(507)</b>	<b>(108)</b>	<b>(1,531)</b>	<b>(2,146)</b>	<b>(2,478)</b>	<b>-</b>	<b>(2,818)</b>	<b>(5,296)</b>

## b) Geographic Revenue

Revenue from external customers by geographic locations is detailed below. Revenue is attributed to each geographic location based on the location of the customer. Movements in foreign currency exchange rates can impact funds received.

	2017 Wind Turbines (\$000's)	2017 Licensing (\$000's)	2017 All Other Segments (\$000's)	2017 Total (\$000's)	2016 Wind Turbines (\$000's)	2016 Licensing (\$000's)	2016 All Other Segments (\$000's)	2016 Total (\$000's)
New Zealand	356	-	155	511	52	-	161	213
United Kingdom and Europe	1,148	-	-	1,148	2,800	-	-	2,800
North America	141	-	-	141	16	-	-	16
<b>Revenue</b>	<b>1,645</b>	<b>-</b>	<b>155</b>	<b>1,800</b>	<b>2,868</b>	<b>-</b>	<b>161</b>	<b>3,029</b>

### Customers representing more than 10% of a segment's Total revenue

	2017 Wind Turbines (\$000's)	2017 Licensing (\$000's)	2017 All Other Segments (\$000's)	2017 Total (\$000's)	2016 Wind Turbines (\$000's)	2016 Licensing (\$000's)	2016 All Other Segments (\$000's)	2016 Total (\$000's)
New Zealand – sale of parts and assets	345	-	155	500	20	-	-	20
New Zealand - sale of electricity	11	-	-	11	33	-	-	33
United Kingdom – sale of electricity	1,053	-	-	1,053	1,406	-	-	1,406
United Kingdom – engineering services	95	-	-	95	97	-	-	97
United Kingdom – sale of turbines	-	-	-	-	1,215	-	-	1,215
North America – engineering services	141	-	-	141	16	-	-	16

## c) Non-current Assets by Geographic Location

The non-current segment assets are scheduled by the geographic location where the asset is held.

The non-current assets include property, plant and equipment and intangible assets.

	2017 Wind Turbines (\$000's)	2017 Licensing (\$000's)	2017 All Other Segments (\$000's)	2017 Total (\$000's)	2016 Wind Turbines (\$000's)	2016 Licensing (\$000's)	2016 All Other Segments (\$000's)	2016 Total (\$000's)
New Zealand	187	53	828	1,068	24	65	1,081	1,170
United Kingdom and Europe	59	-	-	59	8,482	-	-	8,482
China	496	-	-	496	702	-	-	702
North America	20	-	-	20	-	-	-	-
<b>Total non-current assets</b>	<b>762</b>	<b>53</b>	<b>828</b>	<b>1,643</b>	<b>9,208</b>	<b>65</b>	<b>1,081</b>	<b>10,354</b>

## 5. REVENUE

	2017 (\$000's)	2016 (\$000's)
<b>Operating revenue (continuing operations):</b>		
Maintenance fees	95	137
Other	166	206
Sale of turbine components	345	20
	<b>606</b>	<b>363</b>
<b>Other revenue (continuing operations):</b>		
Consultancy fees	141	16
Foreign currency	-	(6)
(Loss)/profit on disposal of assets	(57)	1,215
Sundry income	-	-
	<b>84</b>	<b>1,225</b>
<b>Interest received</b>	<b>2</b>	<b>3</b>
	<b>692</b>	<b>1,591</b>
Operating revenue from discontinuing operations	1,053	1,438
<b>Total revenue</b>	<b>1,745</b>	<b>3,029</b>

See Note 28 regarding discontinuing operations.

## 6. OPERATING EXPENSES

	2017 (\$000's)	2016 (\$000's)
<b>Operating expenses of continuing operations include:</b>		
Amortisation of licences and patents	252	345
Depreciation	245	171
Research and development	4	5
Audit fees – prior year		-
– current year	34	40
Directors' fees	123	83
Rent and leases	160	180
<b>Employee benefit expense: (continuing operations):</b>		
Wages and salaries	1,549	1,622
Defined contribution superannuation	22	22
<b>Expenditure of discontinuing operations</b>	<b>1,177</b>	<b>1,569</b>

See Note 28 regarding discontinuing operations.

## 7. DIRECTORS' COMPENSATION

	2017 (\$000's)	2016 (\$000's)
Salaries and remuneration	165	161
Directors' fees	126	83

## 8. EARNINGS PER SHARE

	2017	2016
Weighted average number of shares on issue	38,645,952	38,645,952
Additional shares if all preference shares converted by the Company	53,521,740	53,521,740
Additional shares if all convertible notes converted to shares	4,250,000	4,250,000
Additional shares if all staff options converted	177,000	974,499
<b>Total potential shares</b>	<b>96,594,692</b>	<b>97,392,191</b>
	<b>(\$000's)</b>	<b>(\$000's)</b>
<b>Loss for the period</b>	<b>(4,304)</b>	<b>(3,680)</b>
Basic and Diluted earnings/(loss) per share	\$(0.11)	\$(0.10)

On 30 November 2015 the Company's shareholders approved an agreement with New Zealand Windfarms Limited (NWF). The consideration included 4,250,000 convertible notes (each convertible into one ordinary share in Windflow). If NWF elects to convert all of these notes, NWF will hold nearly 9.9% of the Ordinary Shares in the Company.

The potential additional ordinary shares are anti-dilutive as they would reduce the loss per share, which is prohibited by the accounting standard.

## 9. TAXATION

	2017 (\$000's)	2016 (\$000's)
<b>Operating deficit</b>	<b>(4,295)</b>	<b>(3,680)</b>
<b>Prima facie taxation expense at 28% (2016: 28%)</b>	<b>(1,203)</b>	<b>(1,030)</b>
Add back permanent differences:		
Amortisation of intangibles	70	96
Current year's loss for which no deferred tax benefit is recognised	(1,132)	(934)

The deferred tax benefit of the Group as at 30 June 2017 is \$13.1 million (2016: \$12.0 million). This has not been recognised in the financial statements due to the lack of certainty that such benefits will be able to be utilised by the Company.

## 10. DIVIDENDS

The Company declared and accrued preferential dividends of \$663,000 for the year ended 30 June 2017 (2016: \$557,000).

A special meeting is proposed for the shareholders to approve conversion of the 17,840,580 preference shares to 53,521,740 ordinary shares. Preferential dividends at 10% accrued during the year the total unpaid dividends as at 30 Jun 2017 amounted to \$1,301,000 (2016: \$582,000). Dividends continue to accrue at \$74,000 per month.

During the remaining periods to maturity, further dividends of \$2.65 million are scheduled to be paid on the Preference Shares unless they are redeemed or converted (see also Notes 2d)v. and 11).

No ordinary dividend was declared or paid during the year (2016: nil).

# 11. CONTRIBUTED CAPITAL

	2017 (\$'000s)	2016 (\$'000s)
Balance at beginning of year	46,589	43,714
Redeemable Convertible Preference Shares	-	2,875
Issuing costs of Preference Shares	(1)	-
<b>Balance at end of year</b>	<b>46,588</b>	<b>46,589</b>

## Number of ordinary shares

	2017	2016
Balance at beginning of year	38,645,952	38,645,952
Conversion of Preference Shares	-	-
<b>Balance at end of year</b>	<b>38,645,952</b>	<b>38,645,952</b>

## Number of redeemable convertible preference shares

	2017	2016
Balance at beginning of year	17,840,580	12,090,580
Allotted during the year	-	5,750,000
Conversion to Ordinary Shares	-	-
<b>Balance at end of year</b>	<b>17,840,580</b>	<b>17,840,580</b>

## Convertible Notes

	2017	2016
Balance at beginning of year	-	-
Allotted during the year	4,250,000	4,250,000
Conversion to Ordinary Shares	-	-
<b>Balance at end of year</b>	<b>4,250,000</b>	<b>4,250,000</b>

During the 2016 financial year the Company allotted 2,000,000 (1 Dec 2015) and 3,750,000 (30 June 2016) Redeemable Convertible Preference Shares respectively. The total capital raised amounted to \$2,875,000 from which was deducted costs of raising capital totalling \$665. The Redeemable Convertible Preference Shares do not have voting rights except on matters affecting those shares. They bear a 10% per annum preferential dividend commencing 12 months after their allotment date, which is then payable quarterly, and these may be redeemed by the Company at their issue price of \$0.50 at any time from 18 months after their allotment date, until their 5 year maturity date. They may be converted to ordinary shares by either the Company or the holder at any time and will be converted by the Company to ordinary shares if not redeemed by the 5 year maturity date. If converted by the holder they will convert to ordinary shares at 1:1. If converted by the Company they will convert into 3 ordinary shares for 1 preference share.

# 12. INVENTORY AND WORK IN PROGRESS

	2017 (\$000's)	2016 (\$000's)
Inventory on hand	875	382
Work in progress	1,842	3,196
<b>Inventory and work in progress</b>	<b>2,717</b>	<b>3,578</b>

Group inventory on hand of \$382,486 is net of an obsolescence provision of \$2,581 (2016: \$62,558) reflecting the age of some inventory held by the Company. Work-in-progress are turbines under construction held at the Christchurch warehouse.



### 13. SHARE OPTION PLANS

#### a) Employee Share Options

The Company, on 19 December 2002, entered into a cash-settled share option plan for the benefit of all employees of the Company who have attained the age of twenty years and who have been employed by the Company for at least one year. The selection of the participants and the number of shares are determined by the Directors. Any offer of an option is at a price equal to the market price at the date of the resolution by the Directors to make an offer. No options were offered in the year ended 30 June 2017 (2016 - \$Nil).

Share options granted comprise:

	2017	2016
<b>Opening Balance</b>	974,499	1,783,288
Granted during year	-	-
Lapsed during the year	797,499	808,789
<b>Closing Balance</b>	<b>177,000</b>	<b>974,499</b>

#### Share Options Outstanding

The share options outstanding at 30 June 2017 expired unexercised on 31 July 2017. No options were granted in the year ended 30 June 2016.

No cash settled awards vested during the year to 30 June 2017 (2016: nil).

#### b) Royalty Share Options

The Company, on the 22 January 2002, entered into an agreement wherein a royalty was payable to Mr Henderson for each wind turbine sold or retained by the Company (other than any turbines retained as demonstration turbines). The amount of the royalty is currently \$5,000 per turbine plus 10,000 share options of \$1.00 each. The total number of options able to be issued is limited so that if exercised they do not represent more than either 1,000,000 shares in Windflow Technology Ltd or more than 20% of the issued share capital of Windflow Technology Ltd.

Each option to purchase shares shall expire 7 months after the end of the calendar quarter. The option price is \$1.00, or if a market price for Windflow Technology Ltd shares has been established at a level which raises concerns for the Directors that the option price is not fair and reasonable to existing shareholders, the option price will be determined as the average market price in the last month of the quarter less one third.

There were no royalty options issued or outstanding or exercised during the year (2016: nil).

### 14. WARRANTY PROVISIONS

	Warranties		Convertible Notes interest	
	2017 (\$000's)	2016 (\$000's)	2017 (\$000's)	2016 (\$000's)
Balance at beginning of period	-	1,036	124	-
Amounts added to provisions	-	-	-	128
Amount released from provision	-	(1,036)	-	(4)
<b>Balance at end of period</b>	<b>-</b>	<b>-</b>	<b>124</b>	<b>124</b>
Expected to be utilised within one year	-	808	106	64
Provision for extended warranty period	-	228	18	60
<b>Balance at end of period</b>	<b>-</b>	<b>1,036</b>	<b>124</b>	<b>124</b>

The warranty provisions were extinguished as part of a full and final settlement of all matters with NZ Windfarms that was approved by shareholders on 30 November 2015. The agreement included Convertible Notes that pay interest for 3 years until maturity on 1 December 2018 unless converted at the option of the holder. Provision has been made for the maximum interest payable.

## 15. CASH ON HAND AND AT BANK

	2017 (\$000's)	2016 (\$000's)
Trading accounts balances	313	758
Deposits held as security	27	27
<b>Balance at end of year</b>	<b>340</b>	<b>785</b>

As at 30 June 2017 the Company had \$15,000 deposited as security with a financial institution as security in respect of the NZAX (2016: \$15,000) and \$12,000 for the company credit cards (2016: \$12,000). The Company earned interest on term deposits at 3.15%.

## 16. TRADE AND OTHER RECEIVABLES

	2017 (\$000's)	2016 (\$000's)
Trade and other receivables	140	28
Accrued income	208	436
Prepayments made	97	98
Asset held for sale	10,198	-
<b>Balance at end of year</b>	<b>10,643</b>	<b>562</b>

In 2017 no allowance for doubtful debts was made (2016: nil).

Accrued income relates to the sale of electricity. Prepayments are deposits for United Kingdom turbine projects and prepaid operating expenses.

The asset held for sale is the net book value of the Group's operating wind turbines in Scotland. A special general meeting of shareholders will be held to vote on the proposed sale, see note 28.

## 17. TRADE AND OTHER PAYABLES

	2017 (\$000's)	2016 (\$000's)
Trade payables	203	1,133
Staff annual leave entitlements	115	102
Sundry creditors and accruals	1,392	778
<b>Balance at end of year</b>	<b>1,711</b>	<b>2,013</b>

The Directors consider the carrying amounts in the Balance Sheet to be a reasonable approximation of their fair value.

## 18. SHAREHOLDER LOAN

In July 2012, a construction financing agreement (Shareholder Loan Facility) was reached with a shareholder, David Iles, wherein the Company, together with its wholly owned subsidiaries Windflow UK Limited (WUK) and Windflow Hammer Limited (WHL), would undertake up to 3 wind turbine projects in Scotland (the "Projects"). From January 2014 this financing agreement increased to up to 7 wind turbine projects (the "Projects") and from 30 November 2015 it increased by 4 turbines to a maximum of 11 wind turbine projects.

The Shareholder Loan Facility provides for advances up to £10.88 million (NZ\$19.3 million as at 30 June 2017 exchange rate) to WUK to fund the Projects, provided certain conditions set out in the loan documents are satisfied. The Company and WHL are covenantors and guarantors of WUK's obligations.

As at 30 June 2017 the aggregate liability under these loans was \$20.7 million (2016: \$16.2 million) with a security over the 'wind turbine' fixed assets \$10.2 million and work in progress and inventories of \$2.7 million.

The Loan liability is recorded as a current liability as the negative equity as at 30 June 2017 places the Company in breach of the loan covenants and enables the lender to call the loans. The lender has expressed the intention not to call any of the loans prior to 31 October 2017.

The loan facilities incorporate the following documents:

- i. Term Loan Agreement wherein interest accrued initially on the amounts advanced to WUK from the date of draw down at a rate of 20% per annum compounding daily, equivalent to an annual percentage rate of 22.134% per annum. Repayments under the Term Loan Agreement were scheduled to commence on the

- date that is 3 years from the date of each loan agreement. No repayments were required before January 2017.
- ii. General Security Agreement (in respect of parts and assemblies of the turbines owned by the Company).
  - iii. Guarantee and Indemnity wherein the Company and WHL jointly and severally guarantee WUK's obligations to the lender under the Term Loan Agreement.
  - iv. Debenture over the assets of WUK granting a general and floating charge over all the assets and undertakings of WUK securing its obligations under the loan (English law).
  - v. Debenture over the assets of WHL granting a general and floating charge over the assets and undertakings of WHL, securing WHL's obligations as guarantor of WUK's obligations under the loan (English law).
  - vi. Floating Charge over assets of WHL granting a general and floating charge over project equipment owned by WUK and the Company securing WUK's obligations under the loan (as the borrower under the Term Loan Agreement) and the Company's obligations as guarantor of WUK's obligations to the lender (Scottish Law).
  - vii. Deed of Variation of Facility Agreement granting loan facility for 7 turbines in total and changing the interest rate from 16 September 2013 to 10.00% per annum, compounding daily and equivalent to an annual percentage rate of 10.516%.

From 1 November 2015 the interest rate reduced to 5% per annum compounding daily, equivalent to an annual percentage rate of 5.13%. Commencement of repayments has been deferred with the Lender's consent through to 31 October 2017.

Depending on the result of the proposed special meeting (see Note 28) it is intended post year end to restructure the shareholder loan.

## 19. FIXED ASSETS: PROPERTY, PLANT & EQUIPMENT

	Office Equipment	Plant & Equipment	Leasehold Improvements	Motor Vehicles	Wind Turbine & Components	Assets under Construction	Total
Cost	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)	(\$000's)
Balance at 30 June 2015	504	2,395	150	69	9,242	30	12,389
Additions	8	138	2	23	130	1,580	1,881
Disposals	0	(64)	0	0	0	(29)	(93)
Foreign currency translation adjustment	(3)	(11)	0	(3)	(925)	(126)	(1,068)
Balance at 30 June 2016	509	2,458	152	89	8,447	1,455	13,110
Additions	2	64	-	-	32	2,735	2,833
Transfers to Wind Turbines	-	-	-	-	4,146	(4,146)	(0)
Transfers to Inventory	-	-	-	-	(35)	-	(35)
Disposals	-	(89)	-	-	(980)	-	(1,069)
Foreign currency translation adjustment	(1)	(3)	-	(1)	(244)	(44)	(293)
Transferred to Assets Held for Sale	-	-	-	-	(11,366)	-	(11,366)
<b>Balance at 30 June 2017</b>	<b>510</b>	<b>2,430</b>	<b>152</b>	<b>87.6</b>	<b>(0)</b>	<b>0</b>	<b>3,180</b>
<b>Depreciation and impairment losses</b>							
Balance at 30 June 2015	478	1,325	80	63	1,313	-	3,259
Depreciation / amortisation for year	23	238	13	5	410	0	689
Disposals	0	(29)	0	0	0	0	(29)
Foreign currency translation adjustment	(1)	(5)	0	0	(77)	0	(83)
Balance at 30 June 2016	500	1,529	93	68	1,646	-	3,836
Depreciation / amortisation for year	5	243	12	5	526	-	791
Disposals	-	(33)	-	-	(980)	-	(1,013)
Foreign currency translation adjustment	(1)	(1)	-	-	(24)	-	(26)
Transferred to Assets Held for Sale	-	-	-	-	(1,168)	-	(1,168)
<b>Balance at 30 June 2017</b>	<b>504</b>	<b>1,738</b>	<b>105</b>	<b>73</b>	<b>0</b>	<b>-</b>	<b>2,420</b>
<b>Carrying amounts</b>							
At 30 June 2015	26	1,070	70	6	7,929	30	9,130
At 30 June 2016	9	929	59	21	6,801	1,455	9,274
At 30 June 2017	6	692	47	15	0	0	760

### Demonstration Turbine

The Company's policy is to depreciate wind turbines over 20 years.

#### Impairment

During the financial year the property, plant and equipment of the Group have been examined for impairment. See Note 29 on going concern, explaining the uncertainties affecting going concern and the potential adverse impact on the above assets.

#### Capital commitments

The Group had no capital commitments as at 30 June 2017 (2016: \$1.1 million).

## 20. INTANGIBLE ASSETS

	Licences and Patents	Development Costs	Total
Cost	(\$'000's)	(\$'000's)	(\$'000's)
Balance 30 June 2015	939	2,563	3,502
Net exchange differences	(4)	-	(4)
<b>Balance 30 June 2016</b>	<b>935</b>	<b>2,563</b>	<b>3,498</b>
Additions	2	-	2
Net exchange differences	(1)	0	(1)
<b>Balance 30 June 2017</b>	<b>936</b>	<b>2,563</b>	<b>3,499</b>

#### Amortisation and impairment losses

Balance 30 June 2015	856	1,217	2,073
Amortisation for the year	15	329	344
<b>Balance 30 June 2016</b>	<b>871</b>	<b>1,546</b>	<b>2,417</b>
Amortisation for the year	13	239	252
<b>Balance 30 June 2017</b>	<b>883</b>	<b>1,786</b>	<b>2,669</b>

#### Carrying amounts

At 30 June 2015	83	1,346	1,429
<b>At 30 June 2016</b>	<b>64</b>	<b>1,017</b>	<b>1,081</b>
<b>At 30 June 2017</b>	<b>53</b>	<b>777</b>	<b>830</b>

#### a) Patents

Management has assessed the value of patents in respect of prospective sales and licensing opportunities, also taken the indicators in Note 29 on going concern into consideration, and is satisfied that the carrying value of this item is not impaired.

#### b) International Electrotechnical Commission (IEC) Certification

These costs generated both internally and externally, represent the costs incurred by the Company in obtaining IEC Certification on 17 September 2010, which expired on 16 September 2015. This will be renewed at an estimated cost of \$80,000. The IEC certification only applies to the Class 1A, 2 bladed, 500 kW turbine, under IEC standard 61400:1 2005. The total cost of certification is amortised over a 10 year period, being the term over which the Company anticipates being able to use this asset. Accordingly, the Company envisages renewing its Class 1A IEC Certification for a further 5 year period. The Board has assessed the value of this certification in respect of prospective export sales and licensing opportunities and is satisfied that the carrying value of this item is not impaired at 30 June 2017 (2016 nil impairment).

See Note 29 on going concern, explaining the uncertainties affecting going concern and the potential adverse impact on the above assets.

## 21. SUBSIDIARY AND ASSOCIATED COMPANIES

#### a) Subsidiaries within the Group comprise:

Nature of business		Interest percentage	
		2017	2016
Windflow UK Ltd	Trading	100	100
Windflow Hammer Ltd	Trading	100	100
Hammer Westray LLP	Trading	100	100
Monan Wind Company Ltd	Trading	90	90
Wind Blades Ltd	Non trading	100	100
Windflow International Ltd	Non trading	100	100
Our Wind Ltd	Non trading	100	100

b) **Associated companies within the Group comprise:**

	Nature of business	Interest percentage	
		2017	2016
Windpower Otago Ltd	Non trading	20	20

## 22. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, foreign currency and interest rate risk arise in the normal course of the Group's business.

a) **Policy disclosure**

i) *Credit risk*

To the extent that the Group has a receivable from another party, there is a credit risk in the event of non-performance by that counter party. Financial instruments, which potentially subject the Group to credit risk, principally consist of bank balances, receivables, and term deposits.

The Group monitors the credit quality of its investments and manages its exposure to credit risk. The ability of the Group to limit its credit risk is constrained by having a small number of customers.

ii) *Liquidity risk*

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an on-going basis. The Group is undertaking certain strategies to meet its medium term business plan (refer Note 29).

iii) *Foreign Exchange Risk*

The Group has exposure to foreign exchange risk as a result of transactions, in particular purchases of raw materials and components, denominated in Australian Dollars, Euro and UK Pounds, and revenues in US Dollars and UK Pounds. The Group has an approved treasury policy that sets out the parameters under which foreign exchange cover is to be taken.

iv) *Interest Rate Risk*

The Group has exposure to interest rate risk to the extent that it invests for a fixed term at fixed rates. The Group endeavours to deposit funds at the best available rate, for the selected term, at a range of registered banks. At each reporting date, there were no term deposits held for periods greater than 90 days. The Group has an interest bearing debt as detailed in Note 18.

b) **Quantitative disclosures**

i) *Credit risk*

The carrying amount of financial assets in the Balance Sheet represents the Group's maximum credit exposure.

The Group does not have any significant concentrations of non-customer credit risk apart from advances to associated companies as disclosed in the Balance Sheet and its deposits with New Zealand registered banks as disclosed in Note 15. Funds are held at registered banks with a Standard and Poor's credit rating of not less than AA.

There is a credit risk arising in that the Group has a small number of customers. The risk arising from this is closely managed. No collateral is held, nor any credit enhancement, for this risk, other than the ability to offset amounts receivable from one customer against accepted warranty payments due to that company. The Directors are satisfied with the management of this exposure. At this stage in the development of the Company it has not been possible to diversify this credit risk.

The status of trade receivables at each reporting date was as follows:

	2017 (\$000's)	2016 (\$000's)
Not past due	532	28
Past due 31-60 days	20	-
Past due 61-90 days	-	-
Past due 91-120 days	-	-
Past due 121 days	-	-
<b>Balance at end of the period</b>	<b>552</b>	<b>28</b>

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

ii) *Liquidity risk*

The Group had secured borrowings of \$20.7 million as at 30 June 2017 (2016: \$16.2 million), see Note 18. Other financial liabilities are comprised of the short terms payables disclosed in Note 17.

The Group monitors its future cash requirements through rolling cash flow forecasts.

30-Jun-17	Carrying amount (\$'000s)	Less than 12 months (\$'000s)	1 - 2 years (\$'000s)	2 - 5 years (\$'000s)
<b>Non derivative financial liabilities</b>				
Trade and other payables	1,711	1,711	-	-
Shareholder loan	20,699	20,699	-	-
<b>Derivative financial liabilities</b>				
FX exchange contracts fully hedged	34	34	-	-

30-Jun-16	Carrying amount (\$'000s)	Less than 12 months (\$'000s)	1 - 2 years (\$'000s)	2 - 5 years (\$'000s)
<b>Non derivative financial liabilities</b>				
Trade and other payables	2,013	2,013	-	-
Shareholder loan	16,229	16,229	-	-
<b>Derivative financial liabilities</b>				
FX exchange contracts fully hedged	21	21	-	-

iii) *Foreign Exchange Risk*

At the reporting date, the Group had exposure to foreign currency risk through the operations, assets and liabilities of its UK subsidiaries. The Group takes out forward cover contracts for major transactions in foreign currencies. At 30 June 2017 the Group had \$59,102 of fully hedged forward exchange contracts (2016: \$323,107).

Underlying exposure

A 5% weakening of the NZD against the British Pound (GBP) at 30 June 2017 would have (increased)/decreased equity and (increased)/decreased the loss by the amounts shown below:

	2017		2016	
	(\$000's)		(\$000's)	
Currency	Equity	P&L	Equity	P&L
GBP	278	(36)	198	(28)

A 5% strengthening of the NZD against GBP at 30 June 2017 would have had the opposite effect.

iv) *Interest rate risk*

At the reporting date, the Group had financial liabilities, but no exposure to interest rate derivatives. All cash and term deposits held by the Group were short term. The Group is not exposed to any variable interest rate risks as all interest-bearing liability instruments have specified fixed interest rates (see Note 18).

c) **Capital Management**

When managing capital (contributed capital and accumulated losses (see Statement of Changes in Equity)), the Directors' objective is to ensure the Group continues as a going concern, as well as maintaining optimal returns for shareholders and benefits for other stakeholders.

The Group's capital is managed at Company level. The Group's capital structure is managed to ensure that the funds sourced from shareholders and external debt is maintained at a level which minimises the credit or liquidity risk to the Group. Adjustments are made, with Board approval, to the structure in light of economic conditions at the time. There were no changes to objectives, policies or processes during the current financial year.

The Company is listed on the NZ Alternative Stock Exchange, with obligations to inform the shareholders and the market of any matters which affect the capital of the Company. This includes changes to the capital structure, new share issues, dividend payments and any other significant matters which could affect the credit-worthiness or liquidity of the Group.

The Group is not currently, and was not subject to any external capital requirements in either reporting period. See also Note 29, Going Concern.



- d) **Fair Value**  
The carrying amounts of the financial instruments in the Consolidated Balance Sheet are the same as their fair value in all material aspects.
- e) **Classification and fair values**  
The Group's fair values of the following Financial Instruments are compared to their carrying value shown in the Balance Sheet:

	Note	Held to maturity (\$000's)	Loans and receivables (\$000's)	Other amortised cost (\$000's)	Total carrying amount (\$000's)	Fair value (\$000's)
<b>30-Jun-17</b>						
<b>Assets</b>						
Cash and cash equivalents	15	-	340	-	340	340
Trade and other receivables	16	-	10,643	-	10,643	10,643
Total current assets		-	10,983	-	10,983	10,983
<b>Total assets</b>		-	10,983	-	10,983	10,983
<b>Current Liabilities</b>						
Trade and other payables	17	-	-	1,711	1,711	1,711
Loan from shareholder	18	-	-	20,699	20,699	20,699
<b>Total liabilities</b>		-	-	22,410	22,410	22,410

	Note	Held to maturity (\$000's)	Loans and receivables (\$000's)	Other amortised cost (\$000's)	Total carrying amount (\$000's)	Fair value (\$000's)
<b>30-Jun-16</b>						
<b>Assets</b>						
Cash and cash equivalents	15	-	785	-	785	785
Trade and other receivables	16	-	562	-	562	562
Total current assets		-	1,347	-	1,347	1,347
<b>Total assets</b>		-	1,347	-	1,347	1,347
<b>Current Liabilities</b>						
Trade and other payables	17	-	-	2,013	2,013	2,013
Loan from shareholder	18	-	-	16,229	16,229	16,229
<b>Total liabilities</b>		-	-	18,242	18,242	18,242

## 23. RELATED PARTY DISCLOSURES

- a) **Transactions with key management personnel:**  
Key management personnel are classified as any persons, including the Directors, who have the authority and responsibility for planning, directing and controlling the activities of the Group.
- i) *Loans to Directors*  
There were no loans to Directors issued during the period to 30 June 2017 (2016: nil).
- ii) *Key management personnel compensation*  
Other than their salaries and incentives, there were no other cash benefits to Directors or executive officers.
- b) **Payments to directors**

Person	Transaction	Note	Transaction value	2016	Balance outstanding	2016
			2017		2017	
A Napier, Director	Management services	(1)	\$ 43,298	\$ 58,315	\$ -	\$ 6,993
G Henderson, Director, CEO	Employee salary and remuneration		\$ 165,775	\$ 160,755	-	-

- (1) Transactions during the period relate to management services provided on market terms and conditions.

c) **Key management personnel compensation**

	<b>2017</b> <b>(\$000's)</b>	<b>2016</b> <b>(\$000's)</b>
Short term employee benefits	584	676

d) **Transactions with a shareholder**

The shareholder providing a loan facility is the Company's largest shareholder and a related party (see Note 18). The same shareholder purchased \$Nil of redeemable convertible preference shares during the year (see Note 11) (2016: \$2,875,000).

**24. RECONCILIATION OF REPORTED DEFICIT WITH CASH FLOWS FROM OPERATING ACTIVITIES**

	<b>2017</b> <b>(\$000's)</b>	<b>2016</b> <b>(\$000's)</b>
<b>Net Deficit</b>	<b>(4,295)</b>	<b>(3,680)</b>
Add / (Less) Non-cash items:		
Amortisation of licences & patents	252	345
Depreciation	790	688
(Profit)/Loss on sale of fixed asset	57	(1,215)
Other	723	441
	<b>1,822</b>	<b>259</b>
<b>Cash flow from operations before working capital changes</b>	<b>(2,473)</b>	<b>(3,421)</b>
Movements in working capital:		
Increase/(Decrease) in accounts payable excluding asset purchases	(930)	553
Increase/(Decrease) in leave entitlements	20	9
Increase/(Decrease) in accruals	(49)	(136)
Movement in provisions	-	(912)
(Increase)/Decrease in other assets	-	649
(Increase)/Decrease in accounts receivable & accrued income	116	231
(Increase)/Decrease in inventory & work in progress	861	(2,741)
(Increase)/Decrease in prepayments made	1	216
(Increase)/Decrease in retentions	-	629
Increase/(Decrease) in Goods and Services Tax and Value Added Tax	307	(373)
Net movements	<b>327</b>	<b>(1,875)</b>
<b>Net cash flows from operating activities</b>	<b>(2,146)</b>	<b>(5,296)</b>

## 25. OPERATING LEASES

Leases held are non-cancellable operating leases which are payable as follows:

	2017 (\$000's)	2017 (\$000's)	2017 (\$000's)	2016 (\$000's)	2016 (\$000's)	2016 (\$000's)
	Leases	Contingent rents	Total	Leases	Contingent rents	Total
Less than 1 yr	39	80	119	27	41	68
More than 1 year and less than 5 years	152	320	472	76	186	262
After 5 years	227	1,077	1,304	255	912	1,167

The operating leases relate to land leases and an office in the United Kingdom and to warehouse space and office premises in New Zealand.

## 26. SEASONALITY OF OPERATIONS

The operations are not subject to seasonal fluctuations but are subject to the effects of the timely completion of orders.

## 27. CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 30 June 2017.

## 28. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

### a) Shareholder letter of support

On 7 September 2016 the Company's largest shareholder provided the Company with a letter of support that was a significant factor in the Directors' consideration that the Company remained a going concern as at 30 June 2016. See also Note 29.

### b) Sale of UK subsidiaries and conversion of preference shares to ordinary shares

A special meeting is proposed for the shareholders to approve the sale of the UK subsidiaries to David Iles. The consideration will be the value of the Loan Facility as at 31 October 2017. As at 30 June 2017 \$20.7 million was owed to David Iles. At the same meeting the shareholders will be asked to vote on the conversion of 17,840,580 preference shares to 53,521,740 ordinary shares.

In these financial statements the revenue and expenses from the UK subsidiaries have been considered as discontinued and have been disclosed as such in the Statement of Comprehensive Income. The assets being sold have been disclosed as Assets held for Sale with a table indicating the amounts involved, see note 29.

## 29. GOING CONCERN ASSUMPTION

As at 30 June 2017 the Group had negative equity of \$7.3 million (30 June 2016: negative equity of \$2.8 million). The increase in negative equity reflects the loss for the financial year and the accrued preference dividends.

As previously reported, the Directors had been intending to undertake a substantial capital raising in 2016-7. Its nature and timing would depend on progress with growing revenue from the Company's various activities (licensing, engineering services, turbine sales, turbine project developments and electricity sales) and ongoing support of shareholders. During the year ended 30 June 2017 progress with licensing, turbine sales and turbine project developments have fallen short of expectations.

Accordingly the Company is now in the process of financial and operational restructuring by means of:

- a conditional agreement with its largest shareholder for a transaction to repay all outstanding debts to him by transferring the UK-based assets to him and converting all outstanding redeemable convertible preference shares
- downsizing its operation significantly so as to reduce overheads. This will involve closing the Christchurch factory and reducing staff numbers to the minimum required to support the operation of the UK turbines and any other revenue-generating activities, such as supporting the US prototype of the Class 2 turbine in Texas.

It is intended that the Company continue as a going concern without continuing to rely of the sole support of its largest shareholder, with a small engineering team, primarily focussed on managing the operation and maintenance of the UK turbines. The Company also intends to address licensing opportunities as they arise. Details of this downsizing will be announced in due course following consultation with staff.

While prospects for licensing, turbine sales and turbine project developments remain and thus a further capital raising is not ruled out, the Directors have agreed to defer any such plans until after this restructuring is complete,

a steady-state has been achieved and there has been further progress on licensing, turbine sales and/or turbine project developments.

These Financial Statements have been prepared using the going concern assumption. There is significant uncertainty as to the Group's ability to remain a going concern, which is contingent on it being able to complete the presently planned restructuring and reduce overheads sufficiently to eliminate on going financial losses.

In summary, based on the Group's continued progress and prospects, together with the financial and operational restructuring under way, the Directors consider the going concern assumption to be a valid basis on which to prepare these Financial Statements. This conclusion was reached giving due regard to circumstances likely to affect the company within the period to 30 June 2018, and to circumstances which may occur beyond that date which may affect the going concern assumption.

The Directors stress that there exists significant risk. If the proposed financial restructuring does not proceed or overheads are not able to be reduced significantly, the Directors would have to re-consider the going concern assumption and take appropriate action. If that process results in the Directors concluding that the Group was no longer a going concern, the net assets of the Company and the Group would reduce significantly and this would likely result in a material negative effect.